

## White Paper

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# Fundamental Change of the Decade

## *The Training Business Process Outsourcing (TBPO) Solution*

### Executive Summary

Organizations are increasingly relying on expertise from training outsourcing suppliers to fill many of their learning needs. But experts claim they won't discover outsourcing's full potential to create value until they begin outsourcing their learning processes, not just projects.

There have been three major waves in the outsourcing of training by large multi-national conglomerates to independent training organizations with the first wave beginning as early as 1986 with General Motors reports TrainingOutsourcing.com, the first Internet knowledge community focused specifically on the training outsourcing industry.

Serving the market's needs are a few select training providers that range from individual training brokers to specialized training business process outsourcing (TBPO) firms. They assist their clients in discovering how outsourcing training to niche training organizations enables them to increase customer satisfaction, reduce training costs and increase revenues. The methodologies employed also scale to cater for entire organizations at a fixed cost, decrease the cost of delivery and enhance learning & development rates.

This paper addresses the multiple factors in understanding the Training Business Process Outsourcing (TBPO) business model.

### Introduction

Now, more than ever, leading organizations are outsourcing all or significant portions of their training functions to succeed. According to a recent study, two-thirds of Fortune 1000 organizations are currently outsourcing some of their HR functions.

These organizations recognize that few if any, of their training activities fall within their core set of activities or competencies. As a result, the past several years have seen a noticeable increase in the number of organizations exploring outsourced services to satisfy their Training & Development needs. For some organizations, outsourcing equals an easy way to make training (an often ill-defined and perceived as a high cost element) disappear. For others, it is an opportunity to raise the overall quality of learning and training, as well as to ensure the strategic relevance of these activities to core business objectives.

Industry research indicates that the number of organizations outsourcing the training function of HR will only increase in the coming months due to five universal key pressure points faced by organizations:

- Protect their company's bottom line;
- Help directly drive the top line;
- Increase quality of training solutions;
- Reduce risks;
- Increase speed to business results.

Motivated by these pressure points, more organizations are embracing TBPO as one of their outsourcing solutions.

## What is TBPO?

**Training BPO refers to the transfer of management and execution of one or more complete ongoing training and development processes or the entire training function to an external services provider.**

*Source: Training and Development: Fertile Ground for BPO. IDC, May 2003.*

The focus on Business Process Outsourcing (BPO) over the last several years has had quite an impact on the way organizations do business. No longer do we spend countless hours and dollars building infrastructure that is common to many organizations. We now know it makes better business sense to build our infrastructure by leveraging on organizations that have the expertise in the business processes we need. We learned it first with accounting systems, then information systems, and finally with entire enterprise solutions. Ask an executive if it shows good judgment to outsource business processes, and the answer is a resounding yes. BPO brings many benefits; some of those most commonly cited include:

- Focus can remain on core business activities;
- World-class solutions and expertise are accessed;
- Competitiveness is enhanced;
- Cost structure becomes variable;
- Inside resources are freed for other purposes;
- Capital funds are made available;
- Expertise is accessed;
- Operating expenses are reduced and controlled;
- Activity is better managed;
- Operations can be planned and scaled with greater flexibility;
- New ideas are acquired;
- Investment in assets is lowered;
- Risk is reduced.

Several recent research reports cite outsourcing learning as a growing practice. A few organizations are outsourcing the entire training function, while many others are strategically determining which functions are best outsourced and which should be kept in-house. As a result of this outsourcing trend, training managers and executives need to understand out-tasking, selective outsourcing, and comprehensive outsourcing, and where their organizations might reap benefits on the succession. They also need to understand the supplier landscape and be prepared to make good decisions and recommendations to top management.

The answer to a successful outsource initiative involves the clear distinction between time honored out-tasking relationships formed between suppliers and corporate trainers, and the expertise available from the growing industry of TBPO firms. In short, organizations are going beyond hiring classroom instructors.

## **TBPO Services**

Training outsourcing exists on a logical continuation from "out-tasking" and can include one or more of the following four categories of services:

- Provision of a strategic Learning & Development infrastructure;
- Training back-office operational and administrative services;
- Learning-content design, development, acquisition, and delivery;
- Customer or client education

### ➤ ***Learning & Development Strategy and Infrastructure***

This service assists in clearly determining the current situation, the desired state, and a plan to achieve your goals. The L&D Strategy and Infrastructure service includes:

- Organizational, group, and individual assessments;
- Strategic business planning;
- Learning & Development infrastructure creation;
- Learning plans and paths;
- Curriculum design and customization;
- Course design and customization;
- E-Learning strategy development;
- Learning Management system selection and implementation;
- Competency assessment and alignment;
- Gap analysis;
- Integration of learning with performance management systems;

➔ ***Training Operational and Administrative Services***

This category of service includes elements like: Reporting, logistics, tracking, and administration of training participants to ensure all areas are taken care of. Participants can then focus on learning and your internal resources can focus on adding value. The Training Operational and Administrative services are:

- Negotiations, contracting, and cost management;
- Event planning;
- Vendor scheduling;
- Marketing and communications;
- Facilities logistics and management;
- Materials customization, ordering, and shipping;
- Participant scheduling and registration;
- Evaluation and evaluation summaries;
- Payments and collections;
- Individual Learning & Development progress tracking;
- Reporting and records management.

➔ ***Learning – Content Design, Development, Acquisition and Delivery***

This area of service covers designing and implementing the most effective solutions for maximum impact (quality and return) on the right target audience in the most efficient (cost and time) manner. These services include:

- Current curriculum assessment;
- Organizational wide knowledge analysis;
- Training needs analysis;
- Training to knowledge matching;
- Learning module development;
- Vendor identification & qualification;
- Vendor contracting & negotiations;
- Vendor management & quality auditing;
- Certification requirement study;
- Identification of “best-in-class”;
- Training solution recommendation;
- In-house or off-site training delivery
- E-learning requirement assessment
- E-learning content development
- E-learning technology suitability assessment
- E-learning solution study

➔ ***Customer/ Client Education***

The emerging realization of increasing customer education costs has brought organizations to outsource this highly crucial function. The services in the Customer/ Client Education category are:

- Customer/ Client product education
- Customer/ Client service education
- Customer/ Client pre-purchase education
- Prospect education

## **TBPO Models**

As the demand for TBPO services of the training and development function increases in velocity, customer needs and preferences and the competitive landscape is rapidly evolving. At this time, various flavors of TBPO exist in the corporate learning services market. Over the next several years learning outsourcing will be embraced in three common arrangements for large and mid-size organizations that choose to offload the ongoing management and execution of training and development services to external parties.

### ***Total TBPO***

In the Total TBPO model, the vendor takes 100% responsibility for all training operations, while the company provides goals, objectives and direction. An example of this model is when an organization outsources its entire training operation to a vendor. All training operations employees are transferred from the organization to the TBPO vendor, including trainers, designers, developers and managers. The organization retains the facilities, but the security door entry tags changed.

### ***Partial TBPO***

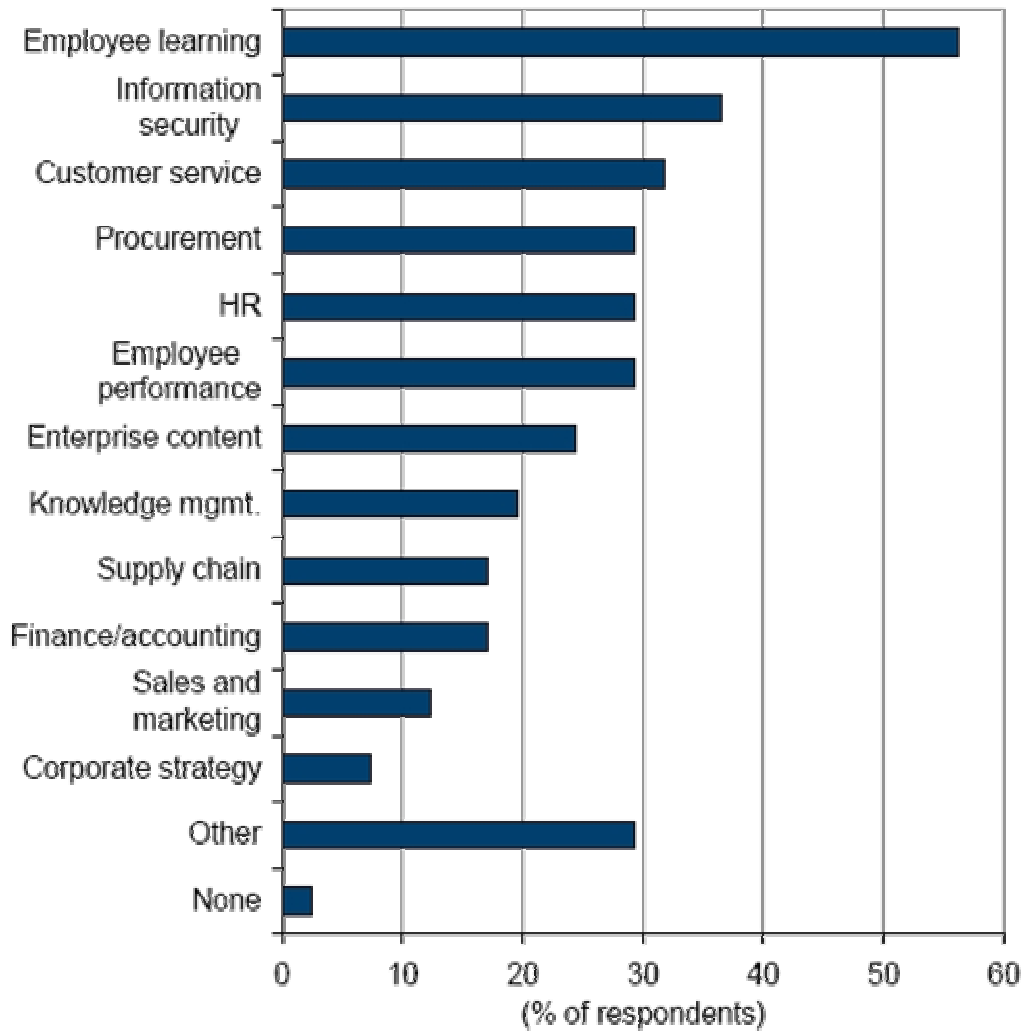
With Partial TBPO, the vendor takes responsibility for all learning design, development and deployment, but the company retains all internal product and services training, design, development and deployment. This model is a highly dynamic setup where complete components are outsourced with little left to worry for organizations.

### ***Select TBPO***

The Select TBPO model allows a select number of services to be outsourced. These activities might include outsourcing of all soft skills and people development training but not the individual employee development plan.

**BUSINESS FUNCTIONS OPEN TO OUTSOURCING TO A SERVICE PROVIDER**

Q. *What business functions would your company consider outsourcing to a service provider?*



n = 52 IT purchase decision makers

Source: IDC's *Solutions Services Demand Survey*, 2003

## Facts & Figures

(Source: *TraininOutsourcing.com*)

▶ According to research done by The Exceleration Group in 2003, of the total **dollars corporations spend on training activities**, 52% goes to customer education activities, 42% goes towards employee learning activities, and 6% goes to training supply chain interests (channel partners and suppliers).

▶ In a 2004 study conducted by IDC, it was found that the three project based activities which training professionals depended on outside vendors the most were content development (60% of respondents), instructional delivery (54%), and access to subject matter experts (37%). The same study found that the single most activity which training professionals depended on vendors for on a long term basis was 'hosting learning technologies or e-learning content' (37%).

▶ It has been estimated that most Fortune 500 companies utilize a **decentralized business model** when it comes to organizational structures for training functions. In a 2004 study by IDC, training professionals were asked "Over the next 2 years do you believe your organization will become more or less centralized in the way it manages training and development processes?". 58% of the respondents said they believe it will become more centralized, 31% said it will remain the same, and 11% said it will be less centralized.

▶ IDC reports in the July 2004 issue of CLO Magazine that "27 percent of CLO's report that they intend to significantly increase spending on the development of their own staff. This spending is being driven by greater availability of cash and the need to prepare training personnel for the intense changes they will continue to face in delivering value to the organization. Development efforts will likely be concentrated on improving performance consulting skills, leveraging technology when developing and delivering training, applying management accounting principles and perhaps, better managing vendor relationships."

▶ The Exceleration Group estimates that the **expenditures (market size) for training and development services** in North America for 2004 will exceed \$120B. Expenditures include internal salaries, facilities, supplies, outsourced services, etc. This includes an estimated \$53B targeted for Employee Training expenditures (Training Magazine, Oct. 2003) and approximately \$65B for Customer Training.

▶ According to the 2003 State of the Industry Report by the American Society for Training and Development, US corporations averaged 28% of **expenditures for training going to outside vendors** in 2002. ASTD further noted that the range was between 19 and 38%, depending on the industry segment. They also reported that the percentage of expenditures going to salaries decreased in 2002, going from 50% to 34%.

▶ It is estimated that corporate America **spends more than 2% of payroll on training**. It is also estimated that companies who are "training investment leaders" spend as much as 4.1% of payroll on training programs (ASTD 2003 State of the Industry Report). It is believed that there is a direct correlation between the levels of investment in training and a firms' performance in the marketplace.

▶ In a 2004 study of US corporations conducted by The Exceleration Group, **the percentage of training department expenditures going towards the functional processes for learning**, 28% went towards content creation, 25% for content delivery, 22% for facilities, labs, and learning dedicated real estate, 10% for marketing and communications, 8% for material fulfillment, 5% for registration services, and 2% for billing and charge backs.

▶ **Spending per employee** for U.S. corporations was up in 2002 to \$826 per employee from \$734 in 2001. (ASTD 2003 State of the Industry Report)

▶ **Annual training hours per employee** increased from 57 in 2001 to 62 in 2002 for US corporations. (ASTD 2003 State of the Industry Report)

▶ A 2003 study The Exceleration Group of human resource executives in US corporations concluded that the **most important factor in choosing a training outsourcing partner** was 'talent level of suppliers staff' (22%), over industry experience (20%) and cost (16%).

▶ Since 2001, there has been a large shift in the **average number of performance consultants** working inside US corporations. From ASTD's 2003 State of the Industry Report, the average number of performance consultants per company increased from 3 in 2001 to 10 in 2002. TrainingOutsourcing.com believes this is attributed to the need for corporations to focus more on the strategic side of learning and to allow vendors to focus more on the tactical side of learning.

▶ It is estimated that the **employee groups in US corporations receiving the most training expenditures** are those in customer service and manufacturing. This is according to a study by The American Society for Training and Development, 2003.

▶ In 2002, the average **percentage of employees trained** ranged from 59% in Japanese organizations to 90% in African and Australia/New Zealand organizations. U.S. organizations trained an average of 79% of employees in 2002. (ASTD 2003 State of the Industry Report)

▶ The Exceleration Group estimates that the number of RFP's issued by US corporations for the purpose of training outsourcing services during the 2003-2004 period have increased three fold over the 2001-2002 period.

Information and some excerpts of this paper were drawn from:

<http://www.trainingoutsourcing.com>  
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